

**Tax Supported
New Issue**

San Diego Public Facilities Financing Authority, California

Ratings

New Issue	
Lease Revenue Refunding Bonds, Series 2010A (Master Refunding Project) ^a	A+
Outstanding Debt	
San Diego General Obligation Bonds ^b Certificates of Participation (1993 Balboa Park/Mission Bay Park), Series 2003	AA-
San Diego Public Facilities Financing Authority Lease Revenue Bonds, Series 2002B	A+
Lease Revenue Bonds, Series 2007A	A+
San Diego Metropolitan Transit Development Board Lease Revenue Refunding Bonds, Series 2003	A+
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A	A+

^aRevised from 'A' on April 30, 2010. ^bRevised from 'A+' on April 30, 2010.

Rating Outlook

Stable

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New Issue Details

Sale Information: \$168,350,000 Lease Revenue Refunding Bonds, Series 2010A (Master Refunding Project), during the week of May 17 via negotiation.
Security: The city's lease rental payments to the authority.
Purpose: To refund outstanding lease revenue bonds.
Final Maturity: Sept. 1, 2011–2039. Subject to optional, mandatory sinking fund and special mandatory redemption prior to maturity.

Rating Rationale

- The city of San Diego benefits from above-average socio-economic characteristics, a diverse economy, diverse revenue streams, and its desirable location as a place to live and work or visit.
- While the city's largest employers are in the traditionally stable military, education, government, and healthcare sectors, its unemployment rate has risen significantly during the economic downturn.
- Simultaneously, the city's key general fund revenue sources have declined and are projected to remain under pressure through fiscal 2011.
- Nevertheless, the city continues to demonstrate its commitment to conservative financial management policies, multiyear budget planning, midyear budget modifications, and general fund balance and reserves preservation.
- Absent revenue increases to offset rising pension payment costs, the city is delaying progress towards achieving its reserve-level policy goals. However, the city is balancing its fiscal 2011 budget without eroding its reserves below fiscal 2010 levels.
- The debt burden is low to moderate, with below-average amortization.
- As the city's general fund continues to be pressured by significant personnel costs, deterioration in the funded status of pension and retiree health plans, state funding pressures, and unmet infrastructure and maintenance needs, there will be fewer available budget options to ensure ongoing structural balance.

Key Rating Drivers

- Continued maintenance of general fund structural balance within the context of declining revenues.
- Achievement of policy target reserve levels and elimination of existing unfunded pension and other post-employment benefits liabilities.

Credit Summary

San Diego is the second largest city in California, with a population of approximately 1.3 million. While the city has diverse employment and tax revenue bases and above-average socio-economic characteristics, some of its largest operating revenues are declining due to decreased property values (a negative 0.6% in fiscal 2010, with no growth projected in fiscal 2011); softened tourist business and retail sales activity; and contraction in most employment sectors, coupled with a high unemployment rate of 11% in March 2010.

As shown in the Income Statement table (*page 3*), the city ended fiscal 2009 with an \$80.5 million unreserved general fund balance, which represents 7.1% of spending. This was in line with its fiscal 2008 results and provides good flexibility. Despite significant expenditure reductions in fiscal 2010 to respond to marked declines in nearly all the city's general fund revenues (except franchise fees), the city still has an \$11.2 million budget deficit to close in the current year. However, it will not need to draw down on its reserves to do so because of planned expenditure and transfer reductions.

Related Research

Applicable Criteria

- *Tax-Supported Rating Criteria, Dec. 21, 2009*
- *U.S. Local Government Tax-Supported Rating Criteria, Dec. 21, 2009*

Other Research

- *San Diego, California, June 10, 2009*
- *Fitch Upgrades \$228MM San Diego, California Tax-supported Debt; Assigns \$153MM Initial Rating, Dec. 12, 2008*
- *Fitch Upgrades San Diego, California GOs to 'A+'; Lease Revenues to 'A' and Water Revenues to 'AA-', Dec. 11, 2008*

Rating History — GO Bonds

Rating	Action	Outlook/ Watch	Date
AA-	Revised	Stable	4/30/10
A+	Affirmed	Stable	6/8/09
A+	Upgraded	Stable	12/11/08
BBB+	Affirmed	Positive ^a	3/27/08
BBB+	Downgraded	Negative	5/27/05
A	Downgraded	Negative	2/16/05
AA	Affirmed	Negative ^a	9/23/04
AA	Downgraded	Negative	2/27/04
AAA	Upgraded	—	5/28/02
AA+	Assigned	—	4/3/98

^aRating Watch.

Rating History — Lease Revenue Bonds and COPs

Rating	Action	Outlook/ Watch	Date
A+	Revised	Stable	4/30/10
A	Affirmed	Stable	6/8/09
A	Upgraded	Stable	12/11/08
BBB-	Affirmed	Positive ^a	3/27/08
BBB-	Downgraded	Negative ^a	5/27/05
A-	Downgraded	Negative ^a	2/16/05
AA-	Affirmed	Negative ^a	9/23/04
AA-	Downgraded	Negative	22/27/04
AA+	Assigned	—	5/28/02

^aRating Watch.

The city has already closed a \$179.1 million budget gap for fiscal 2011 with a combination of ongoing and one-time budget adjustments, including \$24.6 million in fiscal 2010 savings set aside for fiscal 2011. However, a January 2010 annual actuarial valuation of the pension system indicated that the general fund would need to contribute \$9.8 million more than budgeted to the annually required pension contribution. The pension system's unfunded liability has increased significantly due to market losses (\$2.1 billion, up from \$1.3 billion the year prior). That, combined with lower than expected tax revenues in the first half of fiscal 2010, resulted in a further \$28.2 million budget gap, which the mayor is proposing to close through further expenditure reductions and retiree healthcare cost savings. The city's five-year outlook forecasts operating deficits for fiscal years 2012–2015, even after assuming no personnel cost increases, which Fitch believes is unlikely. While the city has a record of solving such deficits without adversely affecting its general fund balances and reserves, the options available to it will diminish over time absent significant revenue increases.

Maintenance of required reserves at fiscal 2010 levels is a priority, but the city has postponed by one year increasing reserve levels in fiscal 2011, as had been previously planned.

As shown in the table at right, the direct debt burden is low at \$411 per capita, or 0.3% of market value. Taking debt issued by overlapping entities into account, overall net debt is a more moderate \$3,496 per capita, or 2.6% of market value. Debt amortization is below average at 42% within 10 years. Debt levels are expected to remain affordable despite anticipated future debt issuances.

Debt Statistics

(\$'000)

This Issue	168,350
Outstanding Debt	522,825
Direct Debt	691,175
Less: Refunded Portion of this Issue	(165,295)
Net Direct Debt	525,880
Overlapping Debt	3,946,480
Total Overall Debt	4,472,360

Debt Ratios

Direct Debt per Capita (\$) ^a	411
As % of Market Value ^b	0.3
Overall Debt per Capita (\$) ^a	3,496
As % of Market Value ^b	2.6

^aPopulation: 1,279,329 (2008 estimate).

^bMarket value: \$169,802,225,000 (fiscal 2009). Note: Numbers may not add due to rounding.

Lease Revenue Refunding Bonds, Series 2010A

The series 2010 refunding bonds are designed to refund the following \$165.3 million in outstanding debt principal and fund a debt service reserve:

- Taxable lease revenue bonds, series 1996A (San Diego Jack Murphy Stadium), to achieve economic savings.
- Certificates of participation (Balboa Park and Mission Bay Park capital improvements program, series 1991), series 1996B, to remove an Ambac surety-funded reserve.
- Lease revenue bonds, series 2009A (various capital improvement projects), to refund this private placement, which was not intended to be a long-term financing.

Under a lease/leaseback arrangement, the city will make lease rental payments to the authority for a variety of leased facilities and properties, whose combined appraised valuation exceeds the par amount of the series 2010 bonds and whose aggregate fair rental value exceeds maximum annual debt service. The city's rental payments are city obligations payable from the general fund and any other legally available funds. The city covenants to budget and appropriate amounts sufficient for each year's rental payments. A requirement for use and occupancy insurance of the leased facilities is designed to address 24 months of rental abatement risk. In the event of abatement, the lease term would be extended by a commensurate amount of time (capped at 10 years),

and the rental payment would be equal to the unpaid rental payment during the abatement period. There is no remedy of rental payment acceleration.

Income Statement

(\$000, Fiscal Years Ended June 30)

	2006	2007	2008	2009
Revenues				
Property Tax	322,087	361,062	384,273	398,743
Sales Tax	110,556	233,385	235,579	212,918
Other Tax	144,228	154,772	155,324	146,197
Licenses and Permits	31,913	31,475	33,815	31,249
Fines and Forfeits	32,346	40,346	31,083	32,467
Charges For Services	91,514	85,026	87,263	133,117
Intergovernmental	16,349	21,710	18,322	13,183
Other Revenue	84,169	44,887	47,874	46,757
Total Revenues	833,162	972,663	993,533	1,014,631
Expenditures				
General Government	183,143	189,203	225,570	243,057
Public Safety	509,264	517,522	562,975	584,986
Health and Social Services	41,720	-	-	-
Culture and Recreation	108,153	112,967	119,125	116,391
Debt Service	5,920	9,123	7,924	3,924
Other	42,734	117,246	133,720	157,757
Total Expenditures	890,934	946,061	1,049,314	1,106,115
Operating Surplus/(Deficit)	(57,772)	26,602	(55,781)	(91,484)
Transfers In	74,661	91,161	100,458	111,326
Other Sources	5,896	35	-	-
Transfers Out	22,192	47,391	51,828	30,074
Other Uses	-	-	116	157
Net Transfers and Other Sources/(Uses)	58,365	43,805	48,514	81,095
Net Surplus/(Deficit)	593	70,407	(7,267)	(10,389)
Fund Balances				
Total Fund Balance	61,641	132,048	124,781	114,392
As % of Total Expenditures, Transfers Out, and Other Uses	6.8	13.3	11.3	10.1
Unreserved Fund Balance	40,353	96,190	78,938	80,497
As % of Total Expenditures, Transfers Out, and Other Uses	4.4	9.7	7.2	7.1
Undesignated, Unreserved Fund Balance	39,884	95,031	75,339	78,347
As % of Total Expenditures, Transfers Out, and Other Uses	4.4	9.6	6.8	6.9

Note: Numbers may not add due to rounding.

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